

Presentation to:
Michigan House of Representatives
Oversight, Reform and Ethics Committee

Michigan Auditor General Performance Audit
Report Number 641-0210-09

Gary Heidel, Executive Director
Michigan State Housing Development Authority (MSHDA)

October 11, 2011

To: Michigan House of Representatives
Oversight, Reform and Ethics Committee

From: Gary Heidel, Executive Director
Michigan State Housing Development Authority

Re: Michigan Auditor General Performance Audit
Report Number 641-0210-09

Date: Tuesday, October 11, 2011

Attachments: Attachment A MSHDA's Proposed Actions Identified in Preliminary Response
MSHDA 2009-2010 Annual Report
MSHDA Program Guide

Thank you for the opportunity to speak with you today.

I am Gary Heidel, Executive Director of the Michigan State Housing Development Authority.

I am joined by Chris LaGrand, MSHDA's Acting Deputy Director of Housing Development.

I'd like to begin by providing a very brief overview of why MSHDA was created and what we do.

MSHDA was established in 1966.

In the ensuing 40-plus years, MSHDA has been widely recognized for the effectiveness and innovation of its programs.

MSHDA receives no state appropriations.

Instead, MSHDA sells tax exempt bonds and notes and lends those proceeds at below-market interest rates to developers of rental housing, buyers of single-family homes, and others.

It's important to understand that MSHDA's enabling act – Act 346, P.A. 1966 – contains multiple provisions authorizing MSHDA to engage in community development and revitalization activities.

Our mission is to provide financial and technical assistance through public and private partnerships that work toward four key objectives:

1. Creating and preserving safe and decent affordable housing;
2. Engaging in community development activities;
3. Developing successful and prosperous cities, towns and villages; and,
4. Addressing homelessness issues.

With respect to the Michigan Auditor General Performance Audit, we agree with many of the findings and recommendations in the report.

As you know, the Audit is based on a review of MSHDA policies and operations that were in place from July 1, 2006 through June 30, 2009.

We believe MSHDA had procedures in place at the time of the audit that complied with or exceeded all state and federal requirements.

However, even before this audit was released, we were already reviewing our records along with our local government partners to further ensure accuracy and accountability.

We are now in the process of developing and implementing, within 60 days from the September 30, 2011 issue date of the Auditor General's report, new corrective action policies that will comply with the Auditor General's recommendations for tighter internal controls.

We have included for your review a list of the proposed corrective actions based on the Auditor General's findings.

We are committed to continuously examining and improving our policies and programs to ensure that MSHDA funds are utilized efficiently and effectively.

I want to assure the Committee that MSHDA has consistently sought to maintain the highest standard of excellence in public service and financial integrity throughout its 40-plus year history.

In closing, I would like to address what we believe is one of the key questions raised by the Auditor General's report, and that is:

Has MSHDA gone beyond its core mission of creating affordable housing?

Our response is that MSHDA's mission has evolved over time within its statutory authority, to address the serious and difficult challenges that have confronted Michigan.

We believe MSHDA's support of community development and revitalization programs that contribute to local economic growth is a legitimate use of MSHDA funds.

For example, MSHDA's highly successful rental rehabilitation program provides affordable rental housing in the unused space above storefronts in downtowns throughout the state. This program not only provides affordable housing but regenerates businesses, stabilizes property values, and creates thriving downtowns all in the name of community development.

We have included our program guide that outlines a multitude of MSHDA programs as well as the most recent annual report that shows, in story form, further examples of how MSHDA supports its mission in a variety of ways. We would be happy to answer questions regarding these programs in further detail.

We support community development activities that will help Michigan plan for a future that recognizes the critical importance of quality of life to attract talent, spur entrepreneurship and encourage local businesses.

In today's challenging economic climate, MSHDA and our community leader partners are seeking new ways to attract and retain people, develop prosperous economies, add intellectual capital, and create jobs.

The Committee might be interested to know that the evolution of MSHDA's mission goes back to at least 1984, based on a legal opinion issued by the Attorney General of Michigan.

In 1984, the following sections were added to Section 1 of our Act to clarify MSHDA's role, and I quote:

"It is further determined that there is a statewide pressing need for programs to alleviate and prevent conditions of unemployment in the housing industry, to preserve existing jobs and create new jobs ... to revitalize and diversify the Michigan economy in general, and to achieve the goals of economic growth and full employment."

End quote.

I might add that this work, for the future of our state, is needed now more than ever.

MSHDA's core mission has always been focused on affordable housing. That mission is unchanged.

However, MSHDA's vision has evolved as a direct response to Michigan's economic problems and the understanding that strong neighborhoods, downtowns and regions will be the infrastructure on which we build a new Michigan economy.

Today, MSHDA's housing work is connected, through many partnerships, to support community and economic development across our state.

At MSHDA, we understand community development and economic development are two sides of the same coin.

With all due respect to the Auditor General's findings, we believe MSHDA's support of community development activities is appropriate and necessary to restoring Michigan to prosperity.

On behalf of the Michigan State Housing Development Authority, I want to thank the Committee Chair and the Committee Members for providing me with the opportunity to speak with you today.

I will be happy to answer any questions you may have.

Annual Report Link: http://www.michigan.gov/mshda/0,4641,7-141-7559_9643---,00.html

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**Attachment: A
MSHDA's Proposed Actions Identified in the Preliminary Response**

1. MSHDA has developed authority-wide performance measures representing all of MSHDA's major programs. These measures will be updated regularly throughout the year to be used by senior managers to identify areas of potential improvement for MSHDA programs.
2. MSHDA is in the process of creating performance measures for each of MSHDA's four major areas of business, deemed "Pillars": Affordable Housing, Homeownership, Preventing Homelessness, and Vibrant Cities. It is MSHDA's goal to finalize these measures by the end of 2011.
3. Before and after photographs are now required in the COP grant system prior to approving a property for reimbursement on the system.
4. Every COP grant site or program that has been awarded funds since the inception of the COP Program will be scheduled for a site or program visit. This on-site monitoring process started March 9, 2010 and, subject to the program staff not encountering significant delays, should be completed by the end of calendar year 2011.
5. Additional functionality has been incorporated into the COP grant system to flag duplicate property addresses to prevent future reimbursement on duplicate properties. Duplicate property address flags will be reviewed prior to issuing reimbursement errors.
6. Since June 2009, MSHDA has implemented additional controls to meet compliance requirements for the Neighborhood Stabilization Program (NSP1). Demolition subprogram activities require the submission and review of the following documentation to ensure validity of addresses: title policy records and/or recorded warranty deed(s), legal descriptions, and real estate summary information.

7. New corrective policies (as listed below) will be implemented to ensure that grant funds are being expended appropriately and in a timely manner:

- a. NSP1 blight elimination grants include language in the grants requiring progress reports be submitted through the MATT System.
- b. The grantees for those special project grants that remain open will be required to provide quarterly reports and COP Program staff will monitor timely receipt of these reports.
- c. Timely use of funds and draw downs will be closely monitored to identify recapture opportunities.
- d. COP Program staff will require all grant amendment requests to be submitted in writing. All grant amendment requests shall include documentation justifying any amendment to the applicable grant. All grant amendment requests shall be signed by the grantees' authorized signatories.
- e. COP Program staff have been integrated in the Office of Community Development in an effort to create efficiencies as well as develop controls that are consistent across all grant programs.
- f. Personnel will be brought in to perform on-site internal audit/compliance functions.

8. MSHDA is currently working with the developers of the MATT System to provide enhancements to the System so all MSHDA grants can be housed in the Matt System on a trail balance that will be reconciled to the general ledger on a monthly basis.

9. MSHDA will reclassify two non-repayable grants to repayable grants and establish accounts receivable for the two grants.

10. MSHDA has created the agency information technology manager position, and one of the responsibilities of this position is to ensure the functionality exists so all HDF grants can be housing in the MATT System.

11. MSHDA requires employees to annually disclose their business and financial interests related to entities that engage in MSHDA business so as to avoid the exercise of authority where and when a conflict of interest might exist. These disclosures are made to the Director of Legal Affairs and reviewed by Legal Division staff.

12. Subsequent to the audit period, system enhancements to strengthen the controls of the MATT System have been implemented or are in development. Also, MSHDA has created an agency information technology manager position.

13. MSHDA has increased system control over grantee and lender data in the MATT System by requiring grantees to submit all requests for name and address

information to MSHDA, requiring only system administrators to make the changes in the MATT System.

14. MSHDA is also currently working with the system developer on system enhancements to limit access rights to users that align with this job responsibilities and create an audit trail on changes made to grantee and lender information.